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DEPARTMENT OF MENTAL HEALTH

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TO: Each Supervisor

FROM: Marvin J. Southard, D.S.W.
Director of Mental Health

SUBJECT: **NOTICE OF INTENT TO ENTER INTO SOLE SOURCE CONTRACT NEGOTIATIONS WITH INFORMEDRX, INC. FOR THE PROVISION OF PHARMACY BENEFIT MANAGEMENT SERVICES**

This is to comply with Board Policy 5.100, Sole Source Contracts, adopted on February 2, 2008. It is the Los Angeles County Department of Mental Health's (DMH or Department) intent to enter into sole source contract negotiations with InformedRX, Inc. (IRX), a division of SXC Health Solutions Corp., for the provision of Pharmacy Benefit Management (PBM) services. The Department of Health Services' (DHS) Community Health Plan (CHP) has a current PBM contract with IRX.

The justification for sole source contracting is that it will expedite acquisition of PBM services that will reduce ongoing pharmacy and Information Technology (IT) costs, mitigate the increasing possibility of unrecoverable failure of an obsolete system, avoid the ongoing risk of adverse outcomes and associated liability, and provide a foundation for more comprehensive and long term solutions.

BACKGROUND

DMH currently uses the legacy Prescription Authorization and Tracking System (PATS) to communicate prescriptions between clinic sites and pharmacies and to manage its pharmacy benefit program for DMH clients. PATS was implemented in 1990 to serve a much simpler and much less dynamic County mental health service delivery system. PATS, in its time, was innovative in its approach to delivering E-prescribing functionality, and it has served the County well. However, the system is costly to maintain and difficult and expensive to modify to accommodate changes in regulatory and business requirements. Fiscal Year 2008-2009 changes to PATS cost more than $1 million. PATS is maintained by the County Internal Services Department (ISD). The number of programmers at ISD with knowledge of PATS and the skills necessary to maintain and modify the code is shrinking due to retirements.

JUSTIFICATION

DMH Pharmacy Program Needs

There has been a need to replace PATS for some time. DMH has been pursuing that goal; however, what was an important business goal has become an urgent matter. With major changes in anticipated funding next year, DMH can no longer easily sustain the expense or bear the risk associated with PATS. Even if the resources were available to provide short-term fixes for PATS, it would not make business sense to continue to invest in an obsolete solution.

Because of the obsolete technology of PATS, it is difficult to update PATS to meet current business requirements. PATS does not capture nor easily facilitate reporting of data that is essential to the effective management of the Pharmacy program at DMH. The aging technology on which PATS operates and the shrinking pool of ISD resources with the skills to maintain it create a risk of application failure. Such a failure would disrupt, or at least seriously slow down, services to clients and create major problems managing the financial aspects of the DMH pharmacy program.

DMH can make its pharmacy benefits management more efficient and cost effective through the specialized skills in drug benefits management that a PBM service provides. DMH spends approximately $41 million on drugs and pharmacy dispensing fees annually. There is an opportunity to reduce both these expenses through the PBM's ability to negotiate better prices with the pharmaceutical companies and the dispensing pharmacies.

A PBM service would maintain comprehensive clinical and financial profiles for DMH clients and facilitate necessary administrative and clinical checks before drugs are prescribed to DMH clients. A PBM service would eliminate the substantial amount of work and expense to the County necessary to maintain a network of contracted pharmacies because the PBM will maintain its own network of pharmacies.

Figure 1 (below) shows the annual cost savings DMH can realize by utilizing the services of a PBM. E-prescribing is one component of the current system, PATS, that is needed in order to stop using that system for pharmacy services. There are many options on how to implement E-prescribing. The cost will be determined once DMH has the opportunity to discuss potential solutions with the PBM.

Figure 1: Estimated Costs: Current Pharmacy Solution vs. New Pharmacy Solution

	One-time cost[1]	Annual Costs	Volume Counts	Comments
Current Pharmacy Solution				
PATS and MHMIS		$3,500,000		
Pharmacy Contract Administration		$60,431		Administration of current pharmacy contracts would no longer be required.
Dispensing Costs		$1,005,000	25,000 County prescriptions monthly @ $3.35/per prescription	
Prescription Drugs		$41,000,000		
Total Current Pharmacy Solution		**$45,565,431**		
New Pharmacy Solution				
PBM				
Implementation costs[1]				
Transaction costs		$93,600	25,000 County claims and 40,000 Non-County claims monthly @ .12¢/per prescription	Assumes all prescriptions are sent to the PBM
Dispensing costs		$600,000	25,000 County prescriptions monthly @ $2.00/per prescription	Assumes dispensing fee paid only on County prescriptions
Prescription Drugs		$40,000,000		Projected $1 million savings to be determined based upon DMH prescribing patterns during negotiations
Total PBM Costs		**$40,693,600**		
E-prescribing[2]		**$0 - $200,000**	25,000 County claims and 40,000 Non-County claims monthly @ .25¢/per prescription	Assumes all prescriptions are sent through E-prescribing
Total New Pharmacy Solution		**$40,693,600- $40,893,600**		
Total Estimated Cost Savings[3]		**($4,671,831- $4,871,831)**		

[1] Only PBM Implementation Cost is printing eligibility cards @ .75¢/card, which would be a One-Time Cost. It is still to be determined whether the PBM would print eligibility cards at all.
[2] E-prescribing Costs will be determined during negotiations.
[3] Annual cost savings equals Total Estimated Cost Savings (Total Current Pharmacy Solution minus Total New Pharmacy Solution) which includes an estimated range for E-prescribing.

DMH Pharmacy Costs

PBM services get better pricing on drugs and dispensing fees because of the volume of the activity they manage. Even a three percent (3%) reduction in drug costs would be over $1 million per year. That amount of money becomes even more urgently needed in the current budget situation and is probably a conservative estimate of what can be achieved.

DMH IT Costs and Risks

Immediately shutting down PATS will allow DMH to avoid mainframe operating costs of $2.3 million per year and programming costs of $1.2 million per year. This funding amount is even more urgently needed in the current budget situation. A PBM Request for Proposal (RFP) is likely to take 18-24 months and will therefore require the Department to incur approximately $5 million to $7 million in programming and mainframe operating costs that could be avoided through a sole source contract.

A sole source contract would allow the Department to best navigate an unusual moment in Federal planning. Between Federal health care reform efforts and the American Recovery and Reinvestment Act of 2009, the health care market place, and the health care IT marketplace in particular, is at a very uncertain moment. A sole source agreement with IRX provides DMH the opportunity to solve its immediate cost and operational problems while buying time to see what other solutions develop in the time it takes to do a considered RFP development and solicitation process.

PATS is exceptionally expensive to operate, exceptionally difficult and expensive to adapt to new business requirements, and exceptionally risky because of the aging technology. The current budget situation creates a shrinking pool of support resources. If PATS fails, there is the possibility that it could be a long, difficult and expensive road back that will impact DMH's ability to deliver services to its clients.

SUMMATION

The Office of the Medical Director, which oversees DMH pharmacy management services, and the Chief Information Office Bureau have examined options and believe that in the County's best interest, the most effective approach to achieving timely cost savings, reducing operational risks, and providing essential data that the pharmacy program needs is to utilize a PBM vendor currently under a County Agreement for pharmacy benefit management services.

It can take two (2) years or more to develop and write a highly specialized RFP for PBM services, receive and evaluate vendor proposals, select a vendor, negotiate the contract and implement their services. The emerging Departmental budget situation makes it especially useful for DMH to partner with a PBM that can start providing services to DMH quickly. Contracting with IRX will save money, reduce operational risk, and provide the data that the DMH pharmacy needs to manage its complete operation. Delaying the transition to PBM services to develop and execute a PBM RFP would cost DMH approximately $5 million per year in savings that could be realized through a rapid transition to a PBM.

Since the Department of Health Services already has a current Agreement with IRX for pharmacy benefit management services, it will be much quicker to procure the services of IRX for DMH. The vendor is already familiar with working under the County contracting process and the standard terms and conditions. DMH, using this sole source approach, would begin to reduce its PATS related risks and begin to realize cost savings as much as 18 months sooner than could be done by starting from scratch to issue a RFP. That would translate into $7 million in savings.

NOTIFICATION TIMELINE

Unless otherwise directed by your Board, DMH will proceed with negotiating the sole source contract after the waiting period of two (2) weeks. DMH will work closely with both the Office of the County Counsel and the Chief Executive Office.

If you have any questions or need additional information, please call me at (213) 738-4601, or your staff may contact Roderick Shaner, M.D., DMH Medical Director, at (213) 738-4603 or Robert Greenless, DMH Chief Information Officer, at (213) 251-6481.

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